

Methodology

ERI's Executive Compensation Assessor® software

ABOUT ERI AND ERI'S EXECUTIVE COMPENSATION ASSESSOR® & SURVEY SOFTWARE ("XA"):

ERI Economic Research Institute's data is used by expert witnesses, attorneys, CPA firms, consultants, researchers, Internal Revenue Service, businesses, and corporations. **ERI's** team of PhD's provides data analysis once performed by corporate statisticians, operations researchers, industrial engineers, compensation and job analysts, and similar mid-level management support jobs which have largely disappeared from corporate America.

Today, **ERI** is the world's largest survey firm in terms of collection, compiling, and analysis of compensation, jobs, and cost-of-living data. **ERI** provides analysis of competitive pay for 9,600 areas in North America and Europe, 1,200 industries, and myriad organizational sizes. Most of the Fortune 500 companies are users of **ERI's** data.

ERI collects survey data for jobs and cost of living and evaluates each source for validity and reliability. Compensation data is compiled in terms of mean and median salaries for jobs of similar duties, responsibilities, skills, and functions. Cost-of-living data is provided by geographic location. **ERI** produces surveys and software analyses by which managers, advisors, and Boards of Directors may make recommendations and/or decisions. **ERI** does not provide fee-for-service consulting; our sole focus is providing valid and reliable information to our subscribers.

Subscribers to **ERI's Executive Compensation Assessor® & Survey (XA)**, include: publicly-traded and privately-held corporations, forensic accountants, various United States government agencies, accountants, attorneys, expert witnesses and other professionals. **ERI** has been a provider of executive data since 1986 and its databases have grown to include over 14,000 publicly traded corporations as well as available executive compensation survey data. Data for Canada is provided under lease from SEDAR, data from UK and EU organizations is manually and digitally extracted. **XA** offers subscribers the largest available database of executive wage, salary, incentive and benefit data for for-profit organizations. Its companion product, **ERI's Nonprofit Comparables Assessor & Tax-Exempt Survey** is also the largest database for nonprofit organizations. Together, they allow subscribers to analyze and review source documents on over 20 million job incumbents.

XA was initially created at the request of the IRS National Appeals & Appraisal Services Office for purposes of assessing the reasonableness of owner/manager compensation. (The original 1988 DOS edition was known as the Valuation Assessor software database.) Additional applications of executive compensation analyses occur in areas relating to: corporate valuations (where owner/manager compensation affects stock value), estate planning, appraisals (\$2000), charitable gifts (\$170), buy/sells (\$2073), ESOP feasibility studies, reasonable compensation, accumulated earnings, dissolution proceedings and other litigation, and insurance funding. In recent years the IRS has refocused its interest regarding over/under-compensation within privately-held corporations.

XA provides subscribers with the ability to analyze precise valuations of market pay. This software product is the only source of its kind that analyzes data compiled from all publicly available executive compensation surveys and all available US SEC DEF 14A "proxy" statements. (Annual reports and SEDAR data for the UK/EU and Canada respectively.) **XA** software assists with the assessment of an organization's executive compensation competitiveness, customized by geographic area, industry, organizational size and date.

Professional & Consultant Editions

The **Executive Compensation Assessor & Survey** software and databases come with two editions, Professional & Consultant. In 1987 **ERI** found that many did not subscribe to what was then the Competitive Salary Assessor because corporations did not wish job analysts involved in executive compensation analyses. The solution was to spin these jobs off into a separate product, **ERI's Executive Compensation Assessor & Survey**, which has over the years evolved into a full survey of all publicly available records. **XA** is licensed to subscribers as one of two versions, the Professional or the Consultant edition. The Professional Edition contains all executive jobs levels (Director, Vice President and higher) as extracted from US SEC filings. **XA** provides executive compensation data including publicly-disclosed specifics (including 10-K financials) and interactive tabular and graphic summaries of the updated

consensus figures for normative pay practices extracted from the SEC records and other survey sources . The Consultant Edition contains all the same executive compensation and financial performance data extracted from US SEC filings as well as other sources and executive remuneration and financial performance data from the United Kingdom and other European Union member nations.

METHODOLOGY:

There is no magic behind the methodology of **XA**. XA analyses begin by utilizing a simple combination of weighted averages. Assume that ERI has collected two surveys that report average and median pay (and ranges) for the job of Chief Human Resources Officer in small companies of the same size. If one survey reports \$50,000 in pay based on 100 survey incumbents and the second reports \$40,000 based on 10 survey incumbents, the overall weighted average is thus $[(50,000 \times 100) + (40,000 \times 10)] / (100 + 10) = \$49,090.90$. This is a "recombined weighted average".

Executive compensation surveys, however, are most often expressed in the form of regression equations, which allow results to be compared according to the size of an organization within an industry grouping. In this case, each point on the trend line can be considered to be an estimated "weighted average" for each size dimension. Historically, ERI has combined these equations (weighting each survey by its sample size) utilizing case weights and polynomial combinations. Standard errors, as reported, are also combined and modeled into an overall "average" standard error.

The XA methodology was greatly enriched in 1994 when US management compensation practices became part of the public domain. With the advent of the ability to download salary and bonus data for over 14,000 public companies via the SEC's database (10,000 active SEC companies with 4,000 additional companies on file that no longer report), it became possible to add this data (in separately derived equations as if the SEC were a survey unto itself) to XA's equations. The SEC's 14,000 public companies' proxies are at least 10 times the number of participants found in any other existing executive compensation survey. The breadth of this data greatly affects the results available.

Sample Frame Size

XA represents the end result of ERI's analyses of three primary sources of executive compensation data: (1) third-party salary surveys, (2) DEF 14A SEC filings and (3) annual reports and information circulars (for the UK/EU and Canada respectively). Therefore, XA represents the most robust database available. Via XA, the total population of publicly-traded corporations is instantly available for comparison purposes (e.g. the number of corporations reporting salaries and bonuses for Chief Executive Officers numbers over 9,400 from studied proxies beginning in 1994.) Thus, the Sample Frame Size for executive jobs includes an actual count of identifiable individuals by industry (this count includes only publicly-traded stock). UK/EU corporations number almost 1,000 each while Canada has over 1,400 companies reporting executive compensation data.

As mentioned above, **ERI's** polynomial regression analyses methodology involves averaging reported salary survey data that includes pre-weighted average salary data. XA's calculations cut regression lines through survey data, with each line always passing through the Survey Mean of the x and y axis generating a line of least squares (the line of central average tendency). XA's sample frame size contains data contributed directly to ERI by employers of executives and executives themselves. These results are compared to and blended with SEC data as well as surveys published by private industry. Thus, ERI's survey population sample size is always SEC data + collected published surveys; averages are proportionately weighted by "n". Again, the "# of companies" shown on XA's Survey and Proxy Analyses chart solely represent those publicly-traded corporations that are factored into a particular analysis as selected by the user. A survey listing is always provided (see ERI's **Platform Library DVD** and <http://www.erieri.com>). Specific values from other surveys cannot be shown due to copyright restrictions. XA software provides the added value of the consolidation of all other available data into a single database. Data extracts of actual proxies can be reviewed on ERI's Platform Library or from within the program itself, permitting direct independent verification of our reliability statistics which are based solely on those publicly-traded corporation that are factored into the particular analysis as chosen by the user.

Interactive Graph

Via the "**Survey & Proxy Analyses**" graph feature of XA, users can analyze specific executive jobs that exist for the industry and corporate revenue selected. The size of the dots that appear on the graph match

how closely each particular corporation corresponds to the specific two to four digit industry code selected. Each dot represents the compensation paid from a publicly-traded corporation for the job selected. It is important to note that should few dots appear on the graph, ERI may nonetheless have compiled a significant amount of compensation data for that particular regression analysis from private surveys sources, despite there being few publicly-traded corporations that report compensation for the range selected. Also, ERI provides a disclaimer when a lack of sufficient data precludes a reasonable estimation of compensation and when fewer than three publicly-traded corporations report compensation for a particular analysis. For purposes of persuading a trial judge, acting as gatekeeper regarding the admissibility of evidence, (see more below), each user should closely match the eSIC code to the specific industry code in question.

Ranges, Minimums, Maximums

ERI calculates the minimum and maximum ranges for each job based upon calculations using a standard error. Each job is stored "data-wise" as a polynomial regression equation that passes through points (weighted averages of collected surveys) with a horizontal axis described in terms of the effective date of the survey. Jobs that begin with the words "Director", "Top", and/or "Chief" utilize a size related X-axis. In these cases (also true for Officers and Controllers), the jobs are size sensitive and are related to either the assets, revenue, fiscal year budget, and/or numbers of employees found within an organization. Corporate revenue is the most common size criteria, but the size dimension found to be most statistically accurate for that industry will always be applied.

Key to ERI's methodology is the smoothing effect created by polynomial regression equations for each job, drawn across an X-axis of the organization's size most commonly measured by revenue. This allows ERI to smooth the impact and vagaries of any one survey that may report data in error or be highly affected by an abnormal survey population and/or sample size that may occur from year to year. This use of a polynomial equation for each job also allows ERI to smooth out fluctuations caused by diverse surveys that do not have consistent methodology between areas, from year to year and/or in their data questionnaires and analyses. Also, after reviewing the data from a new survey, ERI sometimes qualitatively devalues a survey and in some cases, does not find the data believable and drops the survey's inclusion in total (e.g. surveys, for example, that are conducted by recruiting firms oftentimes show selectively inflated numbers due to the conflict of interest inherent in promoting high salaries to potential employers and the corresponding increased commissions based upon higher than realistic competitive norms for executives).

Definition of Salaries and Wages

ERI maintains a common definition of wages and salaries in its analyses of salary surveys. The definition of a wage is straight-time gross pay, exclusive of bonus, commission and other current-year variable cash incentives. For executive compensation profiles, ERI assumes that surveys report the same definition of salary as that found in SEC proxy reporting (e.g. annual direct bonuses are reported separately). Executive jobs are exempt from overtime requirements and thus are typically paid for the achievement of results regardless of the amount of hours required to achieve those outcomes. It should be noted that most executives work far more than simple forty-hour weeks but some highly-paid executives are nevertheless still able to maintain superior business productivity despite working relatively short work weeks.

Survey Mean Wage or Salary

The Survey Mean wage or salary is the estimated total wages of an occupation divided by its estimated employment as described in a polynomial regression equation.

Median Wage or Salary

The median wage or salary is the middle rate in a rank-ordered scale, the estimated 50th percentile of the distribution of wages; 50% of executives in an occupation earn wages below the median wage, and 50% earn wages above the median wage. ERI provides an estimate of what this median might be (using a formula, actual numbers are not stored) and the relationship that exists.

Maximum Reasonable Compensation

The Executive Compensation Table prepares reports and displays "total direct compensation" estimates (bonus + salary) with maximum reasonable compensation limits for an organization's six top jobs (collected/combined and analyzed from SEC proxy reporting and/or management compensation surveys).

XA was originally developed in order to provide reliable evidentiary support for those who provide expert witness testimony in US Tax Court as well as other litigation proceedings and has been used in this fashion since the late 1980s. It is also used today in business valuations and executive pay benchmarks for disclosure in public filings.

The Executive Compensation Table is further enhanced by **ERI's Platform Library** (DVD encyclopedia of HR-related data); see Resources | Proxies/10-Ks/Summary Tables databases. This query allows quick review of summary proxy data extracts for a direct comparison of XA software database calculations with industry matches of actual compensation, as well as downloads of the actual raw data sources (the proxies and 10-ks themselves). This data is also available at <http://www.eri.com>.

Long Term and Other Compensation

Since 2005, **XA** has utilized SEC definitions in reporting data for stock awards, option awards, non-equity incentive plan compensation, change in pension value and non-qualified deferred compensation earnings, and other executive compensation vehicles. These equity awards and other compensation calculations are based solely on ERI's analysis of SEC data. Conversely, ERI's estimate of base salary, incentive/bonus, and total cash compensation is based on ERI's combined analysis of the three data sources described above.

Total Cash Compensation

The Total Cash Compensation amount is defined as the sum of direct salary plus bonus. Amounts shown represent the averages of executives within a specific eSIC/NAICS/usSEC industry. Note that the IRS used PBA/ Principal Business Activity codes to determine comparison industries, rather than SIC/ Standard Industry Codes until adoption of the NAICS code in 1998. The SEC, not being under the mandate for Governmental statistical agencies to convert to the NAICS, still continues to use an abbreviated, SEC specific, 445 SIC-like coding system; see more below. Each Assessor Series® software database report prints out the ERI crosswalk for these codes. Note: Some of the data utilized in ERI's software product(s) have been supplied by third-parties; see ERI End-User License Agreement. Also, for purposes of analyzing Canada, UK and Euro Zone executive compensation, other versions of XA may include reference to the respective countries' national statistics offices that have licensed underlying data to ERI.

Comparable Companies

At the bottom of the **Executive Compensation Table** (in the Survey & Proxy Analyses and Valuations tabs only) is the ability to list data from publicly-traded corporation proxy statements selected as "Comparables":

Name of Company # 1 from Proxy Data

Name of Company # 2 from Proxy Data

Name of Company # 3 from Proxy Data

Name of Company # 4 from Proxy Data

Name of Company # 5 from Proxy Data

This data provided within XA is presented in the same *.rtf prose format as provided via the downloaded SEC databases (some screens may utilize *.html).

Selection of Jobs and Matching of Comparable Jobs

ERI utilizes a proprietary and customized form of contextual text mapping (Semantic Analysis) in the collection of data and the selection of comparable jobs using the Search String field in the Enter New Job function. ERI **Assessor Series**®, the **eDOT**® **Project**, ERI Internet applications and Distance Learning Center use Semantic Analysis* for advanced skill set matching. This new methodology allows a subscriber to specifically define job function, related skills and experience by typing in descriptive words (or job title).

*The effectiveness of contextual text mapping (Semantic Analysis) requires a "universe" of prose in which to operate. ERI's library of copyrighted descriptions, its eDOT Project (patent pending),

historical library of competitive compensation information (since 1986), Internet mining (with CareerJournal and other job boards), and study of work (PAQ data since 1974), create a unique, not duplicated, universe of data for creating competitive salary estimates, job availability assessments, and updating of the **enhanced Dictionary of Occupational Titles™** job demands. Others may claim they use Semantic Analysis, but none can duplicate the breadth of data accessed by ERI.

Semantic Analysis allows subscribers to benchmark their rates against the most current data available. All **Assessor Series®** and **eDOT** databases are updated on a real time basis with the ERI file servers gathering data at the rate of over a 2.5 million unique inputs a month, meaning some data elements are changed and improved every second. Subscribers need not wait for quarterly DVD releases, as more current updates are often available from the Internet.

Determination of Maximum Reasonable Compensation

Tax authorities invariably analyze external data when analyzing the reasonableness of executive compensation arrangements. Maximum reasonable compensation is the highest amount of total compensation provided by similar organizations, in similar industries for similar performance under comparable circumstances which is expected to be defensible as the upper threshold of deductible compensation. At the behest of the IRS, ERI developed a definition of maximum reasonable compensation in terms of the standard error of the distribution of compensation for comparable executives. For years, this deviation was set at 3.01 standard errors, however, in late 2003 after close communication with individuals involved in new IRS efforts (including enforcement of IRC § 4958), this amount was lowered to 2.0 standard errors. Very similar to the standard deviation, the standard error represents the range of pay in which one might find approximately 90% of the population in a skewed distribution.

Retrieve Full DEF-14A Proxies & Full 10-Ks (or Annual Report or Information Circular)

Select a corporation while an Internet connection is active and XA will access ERI's library of proxies, 10-Ks, summary compensation tables and appraisal norms, allowing you to retrieve more extensive data on that corporation. XA accesses current and historical SEC filings and quickly extracts these compensation related documents. Proxies include a detailed breakdown of the compensation paid to the top six named executive officers; 10-Ks provide data relating to "size dimensions" (revenue, assets, and/or fiscal year budget (FYB)). Full 10-K datasets can be quickly downloaded and printed out as well. This data is extracted in *Courier 10* typeface as stored in the SEC files.

Reliability Statistics - A Note for US Expert Witnesses

Throughout its history, ERI's Assessor Series software has received positive treatment from various courts regarding the accuracy and applicability of Assessor Series data. *Leslie v. Boston Software Collaborative*, 2002 WL 532605 (Mass. Sup.); *USDOL v. the Center for Internal Medicine*, 2001 LCA – 10 to 25, ALJ (Oct. 9, 2002). However, in order to assist our subscribers in attesting to the reliability of our data, ERI is sometimes at a disadvantage because our Assessor Series data projections are most often the combinations of many surveys and sources, many of which do not identify the specific corporations paying specific amounts of compensation.

Ofentimes ERI finds that over a hundred surveys contribute to a given analysis, making our data very robust. As the sample size increases the reliability of the data increases. However, to complicate matters, in the majority of cases, salary surveys do not report a standard error. The calculation for standard errors and standard deviations has the "n" count of participants in the denominator. Typically, the higher the number of observations, the lower the reported standard error. The Standard Errors shown in the Reliability Statistics may be considered to be the maximum that exist for the XA software program due to the conservative approach to participant counts described in the next section (*Calculation of Populations*). The top six executive jobs include independently calculated standard errors, while lower level management jobs may include the US reported Relative Standard Error.

Those practitioners who seek to utilize XA in US Tax Court can be comforted by the fact that XA has received positive treatment and a showing of deference in at least one Tax Court Memorandum. *E.J. Harrison and Sons v. Commissioner*, T.C. Memo. 2003-239 at 38 (August 13, 2003). Recently, XA data was found to be unpersuasive in *Miller & Sons v. Commissioner*, T.C. Memo. 2005-114 at 34 et seq (May 19, 2005). In *Miller*, the Judge was quick to point out that XA accurately identifies the comparable SIC industry code and comparable sized corporations by revenue. However, the Judge demanded more from

the surveys used at trial (all surveys, not only XA), including the following information: (1) the number of hours worked by similarly situated CEOs, (2) the responsibilities held in similar corporations, (3) the similar tasks actually performed by comparable executives and (4) the business model employed by comparable corporations. Sufficient to say, no source of compensation information can report this additional information; nor can any survey reveal all of the most aberrational outliers that may exist outside peer norms. Respectfully, ERI strongly believes that our database is the most robust available and that the deference shown to the expert witness in *Harrison* is a more reasonable gauge regarding the persuasiveness of XA data and the suitability of XA data in US Tax Court proceedings dealing with matters relating to reasonable compensation.

Calculation of Populations

Populations shown are the number of publicly-traded corporations applicable to any particular subscriber scenario. Source organization names are shown in the "Select" function in the Comparable Companies list in the Survey & Proxy Analyses and Valuations tabs and the accompanying executive compensation is graphically presented via "dots" on the "Survey and Proxy Analysis" graph. Move a mouse pointer over a dot on the graph and an informational box will appear with that corporation's data. Because other surveys may report on the same company (that is, two competing surveys would sample the same population), reporting other surveys total counts would assure double, triple, and even higher redundant counting. Because of this, ERI limits its reported counts to downloaded cases from the actual SEC data so that the user can immediately verify the publicly-reported compensation data presented pursuant to the search parameters of the size and industry code match criteria documented in the Comparables Comparison screen section.

Industry

ERI utilizes an **enhanced Standard Industrial Classification (eSIC)** code based on the replaced 1987 US SIC versus the now used NAICS. Several reasons for ERI's use of its own industry code **eSIC** exist: 1) The North American Classification System (NAICS), was under dispute between Canada and the United States until agreements were settled in 2007. Statistics Canada, the Economic Classification Policy Committee (ECPC) of the United States, and Mexico's Instituto Nacional de Estadística, Geografía e Informática (INEGI) agreed upon the limited industry revisions for NAICS 2007. The revision went into effect for the reference year 2007 in Canada and the United States and for 2009 in Mexico. 2) Agreements took place in 2007 for the International Standard Industrial Classification of all Economic Activities (ISIC) of the United Nations and the Statistical Classification of Economic Activities in the European Community (NACE, Nomenclature statistique des activités économiques dans la communauté européenne). The revised ISIC (Rev. 4) was adopted by the UN Statistical Commission in March 2006 for world-wide statistical classification of activities and products. NACE is the European-level statistical classification of economic activities, with the first reference year for NACE Rev. 2 being 2008. **ERI** maintains a crosswalk for these files, with Mexico, Canada, and the US having their own unique NAICS. 3) Many countries copyright their postal codes and unique industrial code variations; and whereas **ERI** leases these rights from Statistics Canada and the UK National Statistics Office, it is uneconomical to do so with 25 different country variations to the above systems. 4) Disputes exist within the EU, as the UK SIC is now an extended/evolved version of NACE. 5) "On April 9, 1997, the Office of Management and Budget (OMB) announced its decision to adopt the North American Industry Classification System (NAICS pronounced Nakes) as the industry classification system used by the statistical agencies of the United States and in doing so NAICS replaced the 1987 Standard Industrial Classification." (See www.bls.gov). Note the term, "statistical agency," as disagreements are not necessarily limited to between countries. 6) "Statistical agency" does not include the US Securities and Exchange Commission that utilizes its own unique 445 industry set of SIC-like codes. **ERI** utilizes the SEC 10-Ks, 8-Ks, and proxies as a key data source in the creation of the **Executive Compensation Assessor & Survey**. 7) The US IRS, although asking for an NAICS code on personal and corporate tax returns, uses an "Activity Code" for nonprofit organizations formed before 1998 or the National Tax Exempt Entities code (NTEE) code for those formed thereafter. (Form 990s report neither; this code is taken from the IRS Masterfile of nonprofits, and yes, there is a gap in years when two other code types were used.) **ERI** collects and analyzes all Form 990s (nonprofits include most health care services, such as hospitals). 8) The US Social Security Administration, which historically has been the biggest user of the US DOT is not a statistical agency. The present DOT industries are more than 50 years old (e.g., "buttons & notions" is still used). 9) ERI leases certain financial data from private providers under Distributor [License] Agreements. Other financial information within the Licensed Products, used with permission, may be proprietary to other entities. These sources have their own unique SIC-like codes that require concordance. 10) For historical purposes and cross-industry and country comparisons, **ERI's** research requires a common industrial classification code -- including use with ERI archive data where Principal Business Activity codes (PBAs), although discontinued, are the norm. Over 30 major and minor industry code series exist in ERI's datasets.

Data Plots

The plot of "dots" found in XA are actual data plots as derived from proxy compensation extracts of enterprises whose industry code matches the code specified. As defined on the Graph Screen, the precise number of additional individual discrete private employers (including private corporations, partnerships, sole proprietorships, etc.) contributing input to the pay figures shown in the tabular summaries cannot be determined from the non-public survey sources. Only the identities and counts of public corporations can be exactly determined. Nonetheless, in over a decade of research, ERI has found no discernable differences in the cash compensation practices of public and private corporations; the reality is that private executives are quick to emulate the practices of their public rivals, using the compensation practices of public firms to justify the same practices in their private enterprises.

Placing the cursor over a dot identifies the values, double clicking pulls up the Summary Compensation table for the organization found within this industry.

Reliability Statistics Definitions

Data

Total Compensation values include incentives.

City

For jobs other than top executive jobs, populations of managers in a job group are defined across a wide geographic area. Reported populations are for areas from which executives may commute and, according

to the OES, are typically much larger than a city metropolitan area. While a city name is shown, the population and other statistics represent values for the National Area.

Salary Area Profile

As described above, the City may be a specific name, but the Area Profile relates to the US Government ("OES Area") definition that roughly allows for a reasonable commute.

Survey

These results are from ERI's annual analysis of more than 14,000 companies' proxies from 1994 to present (10,000 active SEC companies with 4,000 additional companies on file that no longer report). Again, SEC uses a unique industry list, while the IRS uses the new North American Industrial Classification System. See the eDOT[®] Industry Xwalk for these and thirty other industry-related coding schemes (eSIC is ERI's enhancement of the US SIC 1987 coding system.) Canadian data represents over 2,300 companies with 1,400 reporting compensation, while both the UK and EU countries totals are equal at ~ 1,700. (There are ~ 11,000 publicly-traded entities outside of the US).

Total Comp/Proxy Area

US Proxies are collected nationally and analyzed by industry. Readers should be aware that comparables, selected by industry code (eSIC, NACE, or usSEC) are not necessarily the same codes used by other parts of the US government.

ERI reports values as published in a proxy, annual report or information circulars; if further analysis or further information about a particular company is required/desired, the subscriber needs to refer to the respective proxy, annual report, or information circular of each individual company.

Observations

As described for top jobs, this is an actual count of organizations within a specific industry category where actual raw data can be extracted (as each organization typically has but one executive in each top job). The observation count will depend on the sample selected from the closest industry codes for the size dimension.

Compensation Standard Error

ERI utilizes a definition of Standard Error in the Salary Assessor[®] & Survey software database that was borrowed from the US Government's OES survey for mid level management jobs. For purposes of consistency, XA software utilizes this same statistic definition. Early in the Year 2000, the OES began to report "Relative Standard Error" (RSE). To quote the OES Technical Notes:

"Estimates derived from different samples would differ from each other. The variance of a survey estimate is a measure of the variation among the estimates from all possible samples. The standard error of a survey estimate is the square root of its variance; the relative standard error is the ratio of the standard error to the estimate itself. The sample estimate and its standard error allowed OES to construct an interval estimate with a prescribed level of confidence that the interval will include the mean value of the estimates from all possible samples.

To illustrate, if all possible samples were selected, and if each of these were surveyed under essentially the same conditions, and an estimate and its estimated sampling error were calculated from each sample, then approximately 90 percent of the intervals from 1.6 standard errors below to 1.6 standard errors above the derived estimate would include the average value of the estimates from all possible samples. This interval is called a 90-percent confidence interval.

Approximately 95 percent of the intervals from two standard errors below to two standard errors above the derived estimate would include the average value of the estimates from all possible samples. This interval is called a 95-percent confidence interval. For example, suppose that an estimated occupational employment total is 5,000 with an associated relative standard error of two percent. Based on this data, the standard error of the estimate is 100 (= 5,000 X 0.02) and the 95-percent confidence interval for the estimate is (5,000 +/- 200X2) or (4,600 to 5,400). This confidence interval is one of many that could be constructed based on the same sample design. Approximately 95 percent of these confidence intervals would encompass the average value of the estimates from all possible samples."

Standard Errors shown are ERI estimates of the highest possible errors for the XA software database, as we would expect the Standard Error to decrease as sample sizes increase.

Population & SE Source

Only executive compensation data gathered from DEF-14A (proxy) statements have been used to create the Standard Errors reported for compensation. Population Relative Standard Errors, if so labeled, are OES.

ERI Statement as to the Relevance and Reliability of Data

Relevance is totally determinable by the circumstances and situation presented. **ERI** provides outsourced analyses and presentations of salary, executive compensation, benefit, and cost of living survey data. Reliability is described in a four part, non-exclusive summary to match the Daubert challenge:

Theory/Technique Demonstrations

Methodologies accompany each **Assessor Series** application. These methodologies include definitions of terms, examples of calculations, and identifications of sources and data updates.

Subject to Publication and Peer Review

ERI's "peers" are its competitors, those firms that also provide data analyses to their clients. Unlike **ERI**, which solicits an annual subscription, most compensation and benefit consulting firms charge an hourly rate for their research services. Suffice it to say, all the major consulting firms have purchased subscriptions so that their consultants could utilize **ERI** analyses: Mercer Consulting, Hewitt Associates, Towers Perrin, Watson Wyatt, the Hay Group, KPMG, PricewaterhouseCoopers, Ernst & Young, Deloitte, and many others are subscribers. **ERI** data are used by these firms in their consulting with their clients; numerous cited Federal Tax cases report on the use of these analyses. **ERI** data and analyzes are under constant review and critique by its competitors. **ERI**, unlike these firms, provides no fee-for-service/time consulting.

Known or Potential Rate of Error

Each **Assessor Series** software database illustrates via a "Reliability Statistics" link (see View | Reliability Statistics on each **Assessor Series** application), the beginning of a statistical overview of **ERI** data. Statistics are reported as derived from just one survey source for all salary and compensation presentations (so that copyright restrictions are not violated). **ERI** accumulates many survey sources to compile its analyses. Hence the data illustrated may be, in **ERI's** estimate, considered to be the highest possible standard error that might exist with each analysis. **Assessor Series** software database results are, by logic, more robust than the standard error displayed and reported.

General Level of Acceptance within the Discipline's Community

Ten thousand subscribers send money each year to purchase their subscriptions to **ERI** analyses. Each year over 90% renew their subscriptions, with many major corporations now in their third decade of subscribing. Special extracts of **ERI** databases are purchased annually by large organizations. US Internal Revenue District Offices subscribe, as does the IRS National Appraisal Services Office (with a subscription now renewed into its third Decade). **ERI** exhibits at major tradeshow (WaW, AILA, SHRM, ERC, AICPA, ASA, IARP, NOSSCR and others). **ERI** data is used as source data by the WSJ (CareerJournal.com) and other major publications and job boards. The two largest US human resource organizations, WorldatWork and SHRM, accept **ERI** Distance Learning Courses for professional maintenance and recertification continuing education credit. Major US employers rely upon **ERI** data as cited in corporate proxy filings (see <http://www.erieri.com/ExecutiveCompensationProxyData>).

ERI Economic Research Institute primarily serves private industry (the public sector, the IRS, and libraries comprise approximately 20% of our subscribers). Our salary structure analyses have been in use since 1974, the PC software to extract competitive wage and salary rates since 1987, and our COL analyses since 1989. **ERI** does not provide consulting services. EIN 33-0356443, Duns # 60977744, CAGE code 0XP39, FedLink ER.

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